# INTRODUCTION TO THE GST

GST
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## FOR INDIVIDUAL ARTISTS

$3.00
(GST Included)

THE CANADA COUNCIL AND
THE CANADIAN CONFERENCE OF THE ARTS

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# INTRODUCTION

## 1. Introduction

This guide provides general information on the Goods and Services Tax (GST) for professional practising artists, creators and performers. The GST came into effect on January 1, 1991, and individual artists must assess their own circumstances to determine the impact of GST on their activities. Users should not rely on this guide as their only source of reference. It has been designed to provide a general introduction, based on the most up-to-date GST information available at the time of publication. Accordingly, the Canada Council and the Canadian Conference of the Arts cannot be held bound or liable by the information provided in this guide. As there will likely be changes in legislation and administrative regulations subsequent to publication, users should seek professional guidance where necessary.

The GST will affect virtually all organizations and individuals in Canada, especially within the artistic community, which has, until now, been less involved with sales taxes than other sectors.

The GST legislation is technical and can be complex; it often uses language and concepts in a unique manner. In order to be as accurate as possible, much of the specialized vocabulary is used here. Words in *italics* are included in a glossary at the back. It is important to understand such key concepts as *business*, *commercial activity*, *good*, *input*, *service*, and *supply*.

In general, any individual who has gross self-employed earnings in excess of $30,000 a year is required to register with the government and to collect GST. Registered individuals are entitled to recover any GST paid on their purchases. Non-registered individuals do not have to collect GST and are not entitled to recover any of the GST they pay on their purchases.

This guide explains when registration is necessary and describes the mechanics of the tax. It also provides information on the implications of being self-employed as opposed to being an employee of an arts organization, some special rules of interest relating to individuals in the artistic community, and transitional measures.

A similar guide has been prepared for arts organizations. It is also available through the Canada Council or the Canadian Conference of the Arts.

July — 1991

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# BASIC CONCEPTS

## 1. How GST Works

GST is a tax on the consumption of *goods* and *services* in Canada; it replaces the federal manufacturer's sales tax. Designed to be paid by the ultimate *consumer* or purchaser, GST is collected by businesses or suppliers, including **individual artists**, throughout the production and distribution chain. The tax is calculated on the sale of goods or provision of services (*supplies*) and is generally payable by the purchaser at the time of purchase. The *person* providing the taxable supply acts as an agent of the government and collects and remits the tax paid by the consumer. The tax applies each time a supply is "sold".

Unlike the current *federal sales tax* or provincial retail sales taxes, which apply to a good only once, at the time of sale by the manufacturer or retailer, the GST is a multi-stage sales tax, applying each time a good or service is sold. It applies at each trade level from raw materials collection and primary processing to manufacturing, wholesaling and retailing. Persons making a taxable supply collect GST from each customer, but recover the GST they paid on their purchases of raw materials or other inputs used to produce the good or service. The recovery mechanism is referred to as an *input tax credit* and it is generally available in full at the time of purchase. On a periodic basis, the collector of the tax remits the difference between the GST charged on sales and the GST paid on purchases. If the GST on purchases exceeds the GST collected on sales, the *supplier* receives a refund.

The result is that each time a good or service is further processed, although the tax applies to the sale price, it effectively applies only to the value added by the vendor. Exhibit 1 illustrates the basic concept of GST as applied to a commercial sale or taxable supply of theatre programs throughout the production and distribution chain.

Ultimately, goods or services are sold to an end consumer, who pays the 7% tax on purchases. The final consumer is not entitled to an input tax credit, and therefore consumers bear the full tax rate of 7% on the retail price.

## 2. What is Taxed

The vast majority of transactions in Canada are taxable because they involve the provision of *taxable supplies* (which include *zero-rated* supplies). However, there are some transactions which are not considered to be *supplies* and which, therefore, are not part of the GST regime. These include employee salaries and standard benefits, grants and donations, prizes and awards, and sales by those not registered for GST.

**EXHIBIT 1**

**TAXABLE SALE OF THEATRE PROGRAMS**

| | Sales $ | 7% GST On Sales $ | Less Input Tax Credit $ | Equals Net Tax Remitted $ |
|---|---|---|---|---|
| Wood* | 100 | 7 | 0 | 7 |
| Paper | 300 | 21 | 7 | 14 |
| Printer | 600 | 42 | 21 | 21 |
| Theatre | 900 | 63 | 42 | 21 |
| Consumers pay | | | | 63 |

* This example assumes that the wood supplier had no purchases.

Commentary:

As can be seen, each person in the chain is required to collect the 7% tax but receives a full input tax credit or refund for the tax charged on purchases. The end result is that none of the businesses pays any GST. It is all collected from the end consumer. The government ultimately receives the amount collected from the consumer, but in portions from each person in the chain.

Since direct grants (and donations of money) are outside the scope of the GST system, there are no GST consequences for the grantor or donor, or the recipient. This is true whether the grant is made to an individual or an organization.

In general though, any person engaged in a *commercial activity* is required to register with the government and collect the 7% on taxable supplies made in Canada. While in many cases the term "supply" is synonymous with sale, it also includes:

- leases;
- sale or other transfers of real *property*;
- the assignment of rights under a contract;
- licensing of a person to use a copyright or patent;
- the sale of admissions;
- barter or exchange of property or services; and
- the giving of gifts and promotional distributions.

## 3. Types of Supplies

Goods and services are categorized into two types of supplies: taxable (including zero-rated) and exempt. The distinction between these types of supplies is critical, especially in determining whether GST paid on purchases may be recovered.

### (a) Taxable Supplies

Taxable supplies cover the vast majority of goods and services provided in the Canadian economy. Where a taxable supply is made, the supplier is entitled to recover the GST paid on purchases to make that supply (through an input tax credit, discussed on page 5).

Taxable supplies include performers' fees, sales of artworks, costumes and make-up, royalties and residuals, accountants' and agents' fees, and commercial rent.

While most taxable supplies are subject to tax at the rate of 7%, a short list of goods and services are subject to tax at a rate of 0%. These so-called *zero-rated* or tax-free goods are still considered taxable supplies. Although this appears paradoxical, the distinction is important. Because zero-rated supplies are taxable, suppliers are entitled to recoup the GST paid on all their inputs, through input tax credits, even though no tax is charged on the sale. Because tax is eliminated from inputs and does not apply to sales, these goods are also called tax-free goods. Some goods and services qualifying for zero-rating are listed in Exhibit 2.

**EXHIBIT 2**

**SOME ZERO-RATED SUPPLIES OF INTEREST TO ARTISTS**

- goods and services exported from Canada
- international passenger or freight transportation (beyond continental USA)
- basic groceries, not including restaurant meals and take-out foods, not including alcohol, snack foods and sweetened baked goods
- supplies to diplomats and international organizations
- certain financial services
- initial sales or importations of precious metals
- prescription drugs and medical devices

**EXHIBIT 3**

**SOME TAX-EXEMPT SUPPLIES OF INTEREST TO ARTISTS**

- certain supplies by charities, non-profit organizations, municipalities, federal and provincial governments, and other public service bodies
- health care, child care and legal aid services
- educational instruction provided by elementary and secondary schools, publicly funded colleges and universities, and private secretarial schools and business colleges
- most domestic financial services
- sales of used residential housing and rentals of residential premises

### (b) Exempt Supplies

Exempt supplies are the second type. Suppliers of exempt goods and services are not required to collect GST. However, unlike vendors of taxable items, they cannot claim an input tax credit for GST paid on purchases. The GST paid on purchases by those providing exempt supplies is "buried" in the price of the goods. Since individuals making exempt supplies are not eligible for the input tax credit, their production costs will rise. They can respond to the increase in two ways, by raising their prices to maintain profit margins or by absorbing the additional costs. In either case, the price of these so-called exempt supplies actually contains an element of GST.

Exempt goods and services are listed in Exhibit 3. Relatively few exempt sales are made by individuals within the artistic community.

## 4. Input Tax Credits

Those who provide taxable supplies are entitled to an input tax credit for GST paid on goods and services used to provide the taxable supplies. Input tax credits are subtracted from the tax collected on sales to determine the amount of GST to be remitted to the government. Where input tax credits exceed tax collected, a refund is available from the government.

The credit is available on purchases of inventory and raw materials even though they may not be sold until much later. Similarly, the full amount of GST paid on acquisitions of capital property is immediately creditable; unlike the income tax system, the GST system does not require amortization of the GST over the life of the asset. In addition, depending on how often you file GST returns, GST paid on purchases is generally creditable in the month after the month of purchase. Because the GST is considered due on the invoice date, the purchaser may receive credit for tax on a purchase before having to pay for it. The longer the payment terms negotiated, therefore, the less likely there is to be a cash flow disadvantage resulting from GST.

For example, assume an artist is registered for GST, elects to file GST returns on a monthly basis, and purchases a number of raw materials on January 15, 1991 for a piece which is not sold until February 1991. The GST paid on the raw materials is creditable against any tax collected on sales in January 1991. Therefore, the credit would be claimed on the GST return filed for January 1991, which would be filed between February 1 and February 28, 1991. As the GST paid on raw materials in January exceeds the GST collected on sales, the artist would receive a refund from the government equal to the amount of GST paid. The artist then sells the piece in February, but has no purchases that month. He or she is required to remit the GST collected on the sale but will receive no input tax credits.

The legislation contains a number of provisions which restrict the input tax credits that can be claimed on certain purchases or limit the circumstances under which a credit can be claimed. These rules are summarized below.

**(a) Personal or Living Expenses**

Input tax credits for certain expenses of a personal nature may be claimed only if specific conditions are met; these expenses include clothing, entertainment and gifts. The general rule is that if the property or service is *exclusively* for personal use no input tax credit may be claimed. This provision parallels the deductibility of business expenses under the Income Tax Act.

**(b) Food, Beverage and Entertainment Expenses**

The rules with respect to meals and entertainment expenses also closely parallel those contained in the Income Tax Act, limiting input tax credits to 80% of the GST paid on these expenses. Input credits may be claimed in full during the fiscal year, but 20% is recaptured by the government at the end of the year. The amount of credit recaptured is repaid in the first GST return of the next year. This provision applies to the cost of tickets for a play, concert, athletic event or other performance and the cost of entertaining guests.

**(c) Apportionment of Input Tax Credits**

A *registrant* is entitled to an input tax credit only on purchases attributable to taxable activities. Thus, where a registrant purchases an item for both personal and business use, only that portion attributable to business use is eligible for a credit. If 90% of the use is attributable to a taxable activity, a full input tax credit may be claimed without the need to allocate the portion under 10%.

In the arts community, there are likely to be numerous examples of combined business and personal use of a property or service. For example, consider a house and the electricity which is used to light and/or heat it. If an artist uses the house both for business and as a personal residence, input tax credits have to be apportioned. The artist is entitled to an input tax credit only on that portion of the house, electricity, etc. used for business purposes.

This means that a method has to be adopted to allocate the input tax credit between business use and personal use. The government has not prescribed allocation methods to be used. Registrants may use any reasonable method to determine the percentage for business use, but it should be reasonable and be used consistently. For example, an individual could base the allocation on the square footage of the residence used for business purposes.

**(d) Capital Purchases**

Where capital property (not including real estate) is purchased for *primarily* (over 50%) business use, a full tax credit may be claimed. But if the use is less than 50% for commercial activity, no tax credit is available.

There are a couple of exceptions to this general rule: passenger vehicles and musical instruments. Individuals or partnerships buying a passenger vehicle are entitled to a tax credit only if the business use is more than 90% (and input credits are available only on the first $24,000). If the business use of the car is less than 90%, a credit of 7/107ths of the capital cost allowance reported for income tax purposes can be claimed.

Where a musician purchases a musical instrument for use in employment or in business, all uses can be included in determining the percentage of use for commercial activity.

## 5. Small Businesses

Certain measures have been introduced to help alleviate the administrative burden of GST for small businesses.

### (a) Small Suppliers

For the arts community, a significant small business measure is the *small supplier's* exemption. Individuals qualifying as small suppliers under the legislation are not required to register or to collect the tax; in turn, they are not eligible to claim input tax credits. Small suppliers are those whose total GST-taxable sales do not exceed $30,000 a year.

Nevertheless, anyone engaged in a commercial activity **may** apply to register. Therefore, even if individual artists are not regularly making taxable sales, they may choose to register. However, they **must** register if total (including zero-rated) taxable sales (other than sales of capital property) in the four calendar quarters immediately preceding exceed $30,000. The $30,000 includes taxable sales made by associates as well. Therefore, if a musician earned $6,000 a year from self-employment and then set up a company or joined a music ensemble that took in $70,000 in GST-taxable revenue, the musician would no longer be eligible for the exemption as a small supplier. Similarly, an artist with taxable sales of $25,000 in Canada and $6,000 at an exhibition outside Canada would not be eligible for the small supplier's exemption. The threshold is established by reviewing income from **all** commercial activities, including those which take place outside Canada, although the individual is not required to collect GST on foreign (zero-rated) sales. However, only self-employment income (not employment income) should be included when determining this threshold.

Once registered, individuals are required to collect GST on taxable supplies. However, they are also eligible for full relief of GST paid on purchases attributable to their taxable activities through input tax credits. Small suppliers who decide to register must remain registered for the balance of the year and the following year.

Before deciding, artists eligible for the exemption should review the impact their tax status would have on their customers, in this case, the art gallery, publisher, theatre, dance company, orchestra, film producer, opera company, etc. If these organizations are registered and engaged in making taxable sales, they are entitled to a full input tax credit for tax they pay on artists' supplies. If the organizations are not engaged in taxable activity, they are not entitled to an input tax credit and have to bear the increased cost of artists' work.

Once artists register, they are entitled to an input tax credit for GST paid on business purchases such as acting or dance classes, transportation, special footwear or clothing, sheet music, paint or canvas, rental of studio or rehearsal space. Therefore, if individual artists are expecting to spend a considerable amount on inputs related to their commercial activities, it is advantageous to register. Any GST paid on inputs attributable to such activities may then be recovered.

### (b) Quick Method of Accounting

In an effort to keep the administrative requirements for the GST as simple as possible, the federal government has outlined a simplified method of accounting for GST for small businesses. The method — called the *Quick Method* — simplifies bookkeeping and the calculation of remittances since under this method businesses do not have to keep track of the GST they pay on most of their business expenses.

The Quick Method may be used by individuals who carry on a business of making or selling goods, or providing services, and whose total *GST-included* taxable sales do not exceed $200,000 per year. Many self-employed individuals within the arts community can use the Quick Method.

Under the Quick Method, a person collects the 7% GST on their taxable sales. However, for purposes of actually remitting the GST, the government has prescribed predetermined percentages. For individuals in the arts community, this predetermined percentage is 5%. Therefore, although 7% GST is collected on sales, only 5% of total *GST-included* revenues has to be remitted to the government. Input tax credits are not allowed on most purchases as the 5% is deemed to take into account the input tax credits that would otherwise be claimed. However, the government still allows full input tax credits on capital purchases.

**EXHIBIT 4**

**QUICK METHOD: WOOD SCULPTOR**

| | |
|---|---|
| Total Sales for Period, including GST charged (A) | $3,000 |
| Predetermined percentage (B) | 5% |
| A x B | 150 |
| Less: GST on purchase of table saw (cost $1,000) | 70 |
| GST remittance | $80 |

Persons with relatively low business purchases may find the Quick Method financially beneficial and some artists may be attracted by the easier administration. GST registrants must apply to Revenue Canada if they wish to use this accounting method. Exhibit 4 illustrates the Quick Method as it might apply to a wood sculptor.

Artists not electing to use the Quick Method must follow the normal GST rules for claiming input tax credits. These rules are described on page 5.

## 6. Registration

### (a) Who Must Register?

Persons engaged in a commercial activity resulting in $30,000 of taxable sales are required to register and to charge, collect and remit GST on all taxable supplies made in the course of those activities. For GST purposes, the definition of *person* is broad and includes individuals, partnerships, corporations, societies, unions, clubs, commissions or other organizations of any kind. Commercial activity includes, any business carried on, any adventure or concern in the nature of trade, and activities that involve the supply of certain real property. Carrying on a business generally involves supplying taxable goods and services for payment or "consideration".

Individuals are engaged in business if they are not employees and have a *reasonable expectation of profit* from self-employment. The concept of reasonable expectation of profit comes from the Income Tax Act and is used to distinguish between hobbyists and those wanting (and likely) to make (taxable) income. (Those engaged in an activity with no reasonable expectation of profit cannot deduct expenses for income tax purposes.) Thus, for GST purposes, most self-employed artists are considered to be engaged in commercial activity.

An adventure or concern in the nature of trade generally refers to a one-time transaction where the vendor acts as a regular dealer of the supply being made. For example, the sale of a piece of real estate might be considered an adventure in the nature of trade, even if the vendor of the property is not in the business of making sales of land. Activities of this nature engaged in by an individual (other than in the course of a business) are not considered to be commercial activities unless there is a reasonable expectation of profit. If there is a reasonable expectation of profit, the individual is considered to be involved in a commercial activity and must register and collect GST on the provision of taxable goods and services.

### (b) How to Register

Revenue Canada has identified a list of 2 million potential registrants; these people may have already received a registration form. Others can obtain these forms and explanatory literature at the post office or from the nearest office of Revenue Canada, Excise. (A list of *Excise* offices is provided on page 25.)

A sample registration form is reproduced on the page opposite.

### (c) When to Register

If, at the beginning of the year, it does not appear that a person will exceed the $30,000 threshold, registration may be deferred until it becomes necessary. Once the threshold is exceeded, the person is required to register by the end of the first month following the next quarter. For example, assume an actor earns $6,000 between January and March 1991, $12,000 between April and June, $14,000 between July and September, and an additional $4,000 in the final calendar quarter between October and December. Some time in the third quarter, the actor exceeded the $30,000 threshold. Therefore, the actor must register before

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PROTECTED — When completed

# GOODS AND SERVICES TAX REGISTRATION FORM

**(See instructions before completing)**

**If the information above is incomplete or incorrect, complete items 1 to 3.**

1. Full Legal Business or Organization Name
2. Trading Name (if different from above)
3. Mailing Address
4. Name of Contact — Title
5. Telephone No. — Area Code
6. Language Preference ☐ English ☐ French
7. Annual GST-Taxable Sales and Revenues (see instruction 8(d) if you are a partnership or a branch) $
   - If $30,000 or less and you do not wish to be registered, go to item 8.
   - If $30,000 or less and you wish to be registered, go to item 9.
   - If greater than $30,000 go to item 9 (GST registration required).

## GST REGISTRATION NOT REQUIRED (check appropriate box and complete Declaration below)

8. I have read the Registration booklet and understand that my business or organization is not required to be registered because (check only one)

a) ☐ GST-taxable sales and revenues did not exceed $30,000 in the past twelve months.

b) ☐ I do not conduct any commercial activity subject to the Goods and Services Tax.

c) ☐ Operations ceased as of — Year — Month

d) ☐ I am a partner in a partnership or operate a branch of a business or organization which is being registered separately for GST. Name of partnership, business or organization.

e) ☐ Other (briefly specify the reason):

## GST REGISTRATION REQUIRED

9. Year End — Month — Day
10. If your business or organization has branches or divisions, would you like them to file separate returns? If yes, further information will follow. ☐ Yes ☐ No
11. Briefly describe your major business activity.
12. Enter the numbers which apply to your operation.
    - Taxation Corp. Acc. No. or Social Insurance No.
    - Payroll Deduction Account No. (only one)
    - Custom Importer No. (only one)
13. Do you have goods for resale? If YES, enter the dollar value of your inventory from the latest financial statement. ☐ Yes ☐ No $
14. Do you sell groceries at the retail level? ☐ Yes ☐ No
15. Please check the appropriate box.
    1 ☐ Government 2 ☐ Registered Charity 3 ☐ Non-profit Organization 4 ☐ Financial Institution 5 ☐ University, School, School Board, Hospital 6 ☐ Joint Venture 7 ☐ Not Applicable

## DECLARATION

I, ______________ (Print Name) declare that, to the best of my knowledge, all of the above information is true and complete.

Signature of Proprietor, Partner, or in case of an Organization or a Corporation, an Authorized Officer — Title — Date

Personal information provided on this form is protected under the provisions of the *Privacy Act* and is maintained in Personal Information Bank RCC/P-PU-065

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**EXHIBIT 5**

**DOCUMENTATION REQUIREMENTS**

**Under $30**, supporting documents must include:

- vendor's name or trading name;
- date when GST on that supply was paid or became payable (for receipts, this is generally the date indicated on the receipt; for written agreements, it is the time the payment is due); and
- the total amount paid or payable for the supply.

**Between $30 and $150**, the following **additional** information is required:

- GST charged or, if GST is included in the price, a statement indicating this (if one document is used for both taxable and exempt supplies, the tax status of each supply has to be indicated separately); and
- supplier's GST registration number.

**$150 or more**, the following **additional** information is required:

- purchaser's name, trading name or name of the authorized agent or representative; and
- a description sufficient to identify the supply.

the end of January 1992 and begin charging GST on all taxable fees. If the actor is in the middle of a production which opened in January 1992 and runs into March, as of February 1, 7% must be collected on fees, even though no tax would have been charged prior to that time.

A person who exceeds $30,000 in a single quarter, such as a film-maker who receives $30,000 in revenue from the sale of rights to a film, is required to register immediately and to begin charging GST as soon as the registration number is received.

## 7. Charging GST

Once registered, individuals must begin charging GST on taxable transactions. Registrants have the option of collecting GST on either a tax-extra or tax-included basis. The system is largely invoice-based but any agreement in writing is an equally valid mechanism for charging the tax.

To minimize the compliance requirements in this respect, the amount of information required is based on the value of the particular supply. Exhibit 5 summarizes these information requirements.

The information required on a supplier's invoices or contracts for sales of services or goods is the same information needed on receipts for purchases of business inputs in order to be able to claim full tax credits.

Notwithstanding the documentation rules described above, the government has indicated that registrants are not required to obtain supporting documentation for the following:

- purchases from coin-operated machines;
- reasonable reimbursements, on a per diem basis, to employees for meals, automobile expenses and incidental costs incurred while travelling within Canada for business reasons;
- other cases prescribed by regulation where the Minister is satisfied that it would be impractical to require supporting documents, or where other satisfactory documentary evidence of tax paid or payable is maintained by the registrant.

## 8. Bookkeeping for Sales and Purchases

**(a) Sales**

Each time a good is sold or service provided, the supplier is required to identify the GST collected on the sale. The accounting system should indicate whether tax was collected (i.e. the good was taxable and not zero-rated or exempt) and, if so, whether the good was sold on a GST-included or GST-extra basis. The GST collected on taxable sales should be posted to a GST payable account. For financial reporting purposes, taxable sales should be recorded net of GST.

Suppliers need controls in place to ensure that exempt and zero-rated sales on which no tax is collected meet all the technical requirements for exemption, in order to avoid the risk of interest and penalties. For example, if a good is coded as zero-rated because it will be exported, it will be necessary to ensure that the good is in fact exported, and that the tax code is not misused.

**(b) Purchases**

Businesses must also record GST paid on purchases. The only exception is for businesses engaged **exclusively** in tax-exempt activities. In this case, no input tax credits are allowed, and therefore there is no need to track GST on purchases. Similarly, the Quick Method relieves some of the necessity to track GST on purchases. However, even with the Quick Method, GST must be recorded and identified for capital purchases.

For businesses engaged solely in taxable activities, GST paid on purchases and collected on supplies is the only information required to determine the remittance.

The accounting system must indicate whether purchases were priced on a GST-included basis or with GST identified separately. Generally, on GST-included items, the purchaser may assume that the GST paid on that purchase is equal to 7/107ths of the price of the good or service before *provincial sales tax* is applied. There are exceptions to this. Purchases of zero-rated and exempt items do not have any tax included; therefore, no credit may be claimed. Similarly, purchases from unregistered small suppliers do not include GST. In addition, for supplies of real property and imported services, the purchaser may be required to self-assess the GST. As a result, it will not be included in the price of the item at the time it is recorded as a purchase.

To ensure that input tax credits are claimed only where GST has been charged, the government has prescribed the documentation requirements listed in Exhibit 5. Failure to have this documentation on file when audited will likely result in the denial of input tax credits. The documentation includes contracts, invoices, receipts, and any other validly issued or signed documents provided by suppliers for purchases on which GST is paid or payable. This supporting documentation must be retained for 6 years (like income tax documentation).

## 9. Returns and Remittances

**(a) Frequency**

Returns and remittances are submitted monthly, quarterly or annually, depending on the sales volume of taxable (including zero-rated) supplies. At the option of the registrant, either the calendar year or the fiscal period for income tax purposes (i.e. taxation year) may be selected as the fiscal year for GST purposes. Exhibit 6 summarizes the rules regarding frequency.

Registrants may wish to file more frequently than required by law if they are in a refund position on a regular basis.

**(b) When Tax is Payable**

Generally, tax is payable when the payment for the supply is made to the supplier or when it becomes due, whichever is earlier. The legislation states that tax becomes due when it is invoiced. Where there is a discrepancy, the consideration becomes due on the earliest of :

- the day on which an invoice for the amount is issued,
- the date of the invoice,
- the day on which the invoice would have been issued, if not for an undue delay, or
- the day on which the amount becomes due under an agreement in writing.

**(c) Remittance Procedures**

Remittance of any tax owing must be made when the registrant's return is filed. Tax returns for monthly and quarterly filers must be filed within one month of the end of the registrant's reporting period. Persons filing on an annual basis must file their annual returns within three months of the end of their reporting period and must pay quarterly instalments by the last day of each quarter. Those with an annual GST remittance of

**EXHIBIT 6**

**FILING AND REMITTANCE REQUIREMENTS**

**Monthly**

- annual taxable sales over $6 million
- threshold determined by reference to preceding fiscal year or total for fiscal quarters ending in current year
- return and remittance due one month after end of each month

**Quarterly**

- annual taxable sales $6 million or less
- threshold determined by reference to preceding fiscal year or total for fiscal quarters ending in current year
- return and tax due one month after end of each quarter
- registrants may elect to file monthly

**Annual, with quarterly instalments**

- annual taxable sales $500,000 or less
- threshold determined by reference to preceding fiscal year
- if sales exceed $500,000 by end of first or second fiscal quarter, must switch to quarterly
- quarterly instalments due by the end of each quarter
- no quarterly instalments if total annual GST remittance less than $1,000
- annual return reconciling instalments due within three months of year end
- registrants may elect to file monthly or quarterly

less than $1,000 need not make quarterly instalment payments.

Penalties and interest are payable on the first day after the return or quarterly instalment is due. The interest rates and penalties are defined in the regulations. If a refund is due, it is also claimed in the periodic return. Interest is payable on outstanding refund claims commencing 21 days after the return is received by Revenue Canada.

## 10. Grants and Donations

Grants, donations and prizes are generally not subject to GST. They are normally outside the scope of the GST system and, as a result, there are no GST consequences for either the granting body or the recipient. Payments to authors from the Public Lending Rights Commission do not attract GST either. Furthermore, grants do not restrict the recipient's input tax credits.

## 3

# EMPLOYEE OR SELF-EMPLOYED

This section discusses the advantages and disadvantages, from a GST point of view, of being employed by an arts organization, or being self-employed and working on a contract for services. It also explores decisions an organization may make when determining whether to use an employee or a self-employed individual to provide services.

Many artists who are affiliated with arts organizations are not employees. Rather, they work as self-employed individuals providing a service to the organization and as such, provided they are not small suppliers, they are required to charge GST. In contrast, services by employees to employers are not considered to be supplies and are simply outside the GST regime. Therefore, the salary of a musician who is an employee of an orchestra would not attract GST.

From an organization's perspective and strictly from a GST point of view, it might be preferable to hire performers as employees rather than contract with self-employed individuals who would charge GST on their services. As described below, the advantages of hiring are clear for organizations making exempt supplies. The advantages for organizations making taxable supplies relate to cash flow concerns only. Obviously, there are other factors which must be considered in deciding whether to use employees or self-employed artists.

If a theatre provides tax-exempt admissions, for example, it is not entitled to any input tax credits and has to absorb the increased cost of self-employed performers' services itself or pass it on to consumers through higher admission prices. If the admissions or other supplies are taxable, although the company is required to pay GST on the performers' fees, it is also entitled to a full input tax credit. As a result, the fact that performers are not employees does not represent a real cost.

In general, an organization providing exempt supplies will prefer to have employees provide services because using self-employed individuals would result in a net GST cost, which cannot be recovered.

# 4

# SOME APPLICATIONS OF INTEREST TO ARTISTS

## 1. Agents/Promoters

Agents, dealers, managers and promoters play a particular role in the arts sector. Under normal agency rules, the supply of property or services through an agent is treated as a transaction between the artist and the purchaser/engager, although the artist (principal) may wish to authorize the agent to collect the tax on his or her behalf, rather than collecting it him or herself.

Activities by a GST-registered agent on behalf of an artist are taxable so GST applies to the agent's fee. For example, if an agent arranges a performance for an actor or musician, or sells art on behalf of an artist and charges a commission for the "sale", the commission is taxable.

An artist who is registered must collect GST on the supply of the performance or the artwork and is eligible for an input tax credit for the GST paid on the agent's commission (as well as on any other business purchases such as paint, canvas, costumes, makeup, etc.).

Thus, if both artist and agent are GST registrants, and if the agent contracts with an engager or sells an artwork to a collector in the artist's name, the artist is considered to have "sold" directly to the purchaser and to have charged and collected GST on the full performance fee or selling price. (See Exhibit 7, Example A.)

However, in certain cases, artists are deemed not to have made the supply of their services to the purchaser. Rather, an agent who represents them is deemed to have made the supply and must collect the GST from the purchaser/engager. This situation arises where an agent provides goods or services on behalf of an unregistered person and fails to advise the purchaser that the artist is unregistered, or if the agent does not invoice or contract with the purchaser in the artist's name. Where this occurs the artist is deemed to have supplied the property to the agent and the agent is deemed to have supplied it to the purchaser. In this case, the artist would receive only the fee before commission (plus GST if registered, of course), while the agent would charge and be responsible for remitting GST on the full sale price (including commission) paid by the purchaser/engager. The agent could claim input tax credits for the GST paid to the artist if registered, and the artist would claim credits for tax paid on business expenses. (See Exhibit 7, Example B.)

**EXHIBIT 7**

**GST TRANSACTIONS BETWEEN AN ARTIST AND GALLERY**

**EXAMPLE A**

**Facts**

Gallery sells artwork in artist's name and charges GST on artist's behalf

Price of art sold .......... $1000

Commission .......... $400

**Transactions**

1. Gallery charges purchaser ($1000 + $70 GST) .......... $1070.00
2. Gallery "charges" artist ($400 + $28 GST) .......... $428.00
3. Artist receives .......... $642.00
4. Artist remits GST on sale ($70 - $28) .......... $42.00
5. Gallery remits GST on commission .......... $28.00
6. Government receives GST .......... $70.00

**EXAMPLE B**

**Facts**

Gallery sells artwork without notifying purchaser that artist is not registered

Price of art sold .......... $1000

Gallery commission .......... $400

Gallery commission and artwork are taxable

**Transactions**

1. Gallery charges purchaser ($1000 + $70) .......... $1070
2. Gallery pays artist .......... $600
3. Gallery remits GST on sale .......... $70

**Commentary**

In Example B the artist is deemed to have sold the work (or provided the service) to the gallery/agent, and the gallery is deemed to have sold it to the purchaser (without providing any service to the artist). As the artist is not a GST registrant, no tax is charged to the gallery (so the gallery does not claim any credits).

The government receives the same amount of tax in either case but the unregistered artist cannot recover the GST paid on materials used to create the artwork.

If the artist in Example B was registered but the agent did not contract in the artist's name, the artist would charge tax on the deemed sale to the gallery ($600 + $42) and the gallery would claim a tax credit ($42) and remit $28.

**EXHIBIT 8**

**COMMISSIONS AND REGISTERED ARTISTS**

| | GST-Extra Price | GST-Included Price (7/107) |
|---|---|---|
| Price of art sold | $1000.00 | $1000.00 |
| GST | 70.00 | 65.40 |
| Commission paid by artist | 400.00 | 373.84 |
| **Transactions** | | |
| 1. Gallery collects on sale | 70.00 | 65.40 |
| 2. Gallery collects on commission | 28.00 | 26.16 |
| 3. Artist collects on art to gallery | 42.00 | 39.25 |
| 4. Gallery receives input tax credit | 42.00 | 39.25 |
| 5. Artist receives input tax credit | 28.00 | 26.16 |
| 6. Government receives GST | 70.00 | 65.40 |

In order to earn the same amount on sales of art through galleries, artists will likely want commissions to be based on a GST-excluded price or to be reduced to reflect a GST-included price. Exhibit 8 illustrates the foregoing.

## 2. Royalties and Collectives

Artists, galleries, performing companies and others must pay royalties for the right to use original work such as a piece of music, choreography, play or script. GST is paid on royalty fees when the use takes place in Canada or there is a right to use the work in Canada. (To the extent that these fees are attributable to the commercial activity of a registrant, the registrant is entitled to a full tax credit for GST paid on the royalty fee.)

An artist who receives royalties is required to collect GST on that revenue. Therefore, if a musician writes a piece of music and receives revenue from other musicians for the right to perform the piece, this is a taxable supply and the composer is required to collect GST. If the royalty is for a right to use the work exclusively outside Canada, no GST is charged.

A special provision exists when certain *prescribed* agents (such as collectives) supply intangible property, such as the right to use the work of an author, performing artist, painter, sculptor or other artist. Where a *prescribed* agent supplies *rights* to an artist's work (rights held either by the artist or by someone else), the holder of the rights is not required to collect GST as he or she is not considered to have made a supply. Rather, the collective is deemed to have provided the rights to the purchaser. The agent/collective therefore collects GST on the payment for the rights (but does not charge tax to the rights holder on any administration fees).

Thus, if the royalty is received through a prescribed collective, the artist is not required to collect GST because it will have been charged by the collective.

## 3. Consignment Sales

Works of art and crafts are taxable supplies. Therefore, GST applies to sales of art by artists, dealers and galleries. Where sales of art and other taxable goods and services exceed $30,000 a year, galleries must register and collect GST on these commercial activities. Artists may wish to authorize the gallery/dealer to collect the tax on their behalf, rather than collecting it themselves. (See Agents/Promoters above and Exhibit 8.) There is no tax liability for works on consignment until they are sold.

## 4. Performances and Shows Outside Canada

When an artist performs outside Canada, his or her earnings are considered to be outside the scope of the legislation and are not subject to GST. However, items purchased by the artist in Canada for use on tour are eligible for an input tax credit as they are attributable to a commercial activity. For example, a musician who needed to purchase a special instrument case for travelling would be entitled to an input tax credit for the GST paid on the purchase. Similarly, if art shipped to a foreign art show by a visual artist required extensive packaging, the GST paid on these purchases would also be eligible for a credit, provided the individual was a registrant.

In the same vein, items purchased for business purposes outside Canada, on which GST is paid when the purchase is declared at the border, would be eligible for the input tax credit.

Exported artworks, of course, are also zero-rated, entitling the supplier (gallery or artist) to sell the art without GST and to claim an input tax credit for GST paid on any business purchases.

## 5. Donations of Art

Generally, donations of art to *charity* or the Crown do not attract GST by virtue of being donations. Similarly, donations of art from outside Canada to a registered charity are considered non-taxable imports, and the art does not attract GST at the border provided it is imported by the charity itself. If, however, the item is purchased by an individual in a foreign country, brought into Canada, and subsequently donated, the individual bringing the item through Customs is required to pay GST at the border. Therefore, it is advantageous to make donations prior to importation to avoid payment of GST.

If an artist donates a piece of art to charity, no GST is collected on the supply as there is no payment. The artist would still be entitled to a full input tax credit on purchases made to create the donated work.

## 6. Non-Resident Artists

The legislation contains special rules for non-resident artists and promoters. A non-resident who stages a performance, exhibit, seminar, activity or event of a cultural, social, educational or other nature and charges admission or attendance fees directly to spectators is considered to be carrying on a business and is required to register and to collect GST. Therefore, a non-resident artist who rents gallery space privately, exhibits work, and collects admissions, would be required to register.

If, on the other hand, a non-resident artist or promoter comes to Canada and provides services to an intermediary, such as a theatre, concert hall, orchestra, dance company or gallery, and does not charge admission directly to spectators or attendees, the non-resident is not required to register or charge GST on his or her services. For example, a guest dancer who enters Canada to perform with a Canadian ballet company is not required to register or charge GST. The ballet company itself would collect GST on the admissions if they are taxable. From the consumer's perspective, there is no difference between non-resident and resident performers.

From the organization's perspective, there is some difference if the admission fees are tax-exempt. For example, an orchestra puts on one event with a GST-registered Canadian performer and one with a foreign performer. Assuming the admission fees are taxable, the orchestra paying for the Canadian musician's appearance would be eligible for a full input tax credit for the GST paid to the performer. Thus, the result is the same whether the symphony uses a Canadian or non-resident performer.

However, if the admissions are exempt, the procedure would be different. While the Canadian performer would still have to charge the orchestra GST, the orchestra would be ineligible for an input tax credit. In contrast, the foreign musician would not normally be required to collect GST (unless the non-resident is carrying on business in Canada or is registered for GST purposes). The organization paying the foreign performer would, however, likely be required to self-assess the GST relating to the fee paid to the performer and remit the applicable amount directly to Revenue Canada. In this way, the Canadian performer will not be placed at a competitive disadvantage.

## 7. Special Rules for Musical Instruments

There is a special rule for claiming input tax credits for GST paid in respect of musical instruments. If a musician is registered for the GST and if more than 50 per cent of the use of his or her musical instrument is to provide services as a musician, an input tax credit can be claimed for the full amount of GST paid on the purchase of a musical instrument (whether or not it is used primarily for self-employment). If the musical instrument is used for personal purposes more than 50 per cent of the time, the musician cannot claim an input tax credit.

Revenue Canada provides in its Guide entitled *Information for the Arts and Entertainment Industry* the example of a GST-registered musician who uses a musical instrument 40 per cent of the time as an employee and 25 per cent of the time as a self-employed musician (not including time for rehearsals). The musician's use of the instrument in employment activities will be considered part of his or her commercial activities. Hence, the musician will be entitled to claim a full tax credit for any GST paid on the purchase of the musical instrument.

Revenue Canada further states that musicians who are not GST registrants and who use musical instruments strictly for employment income can claim a rebate of the GST they paid as long as they are not reimbursed by their employer. The rebate can be claimed on expenses which they can deduct in determining their income from employment for income tax purposes.

In this case an employee can claim an income tax deduction for the capital cost allowance on a musical instrument that is used in his or her employment. According to Revenue Canada's guide, the employee is also allowed to claim a GST rebate equal to 7/107ths of the amount of the capital cost allowance. Employees may claim their GST rebate when they file their personal income tax returns.

## 8. Change of Use

Special change-of-use rules apply to input tax credits taken on capital property and real property. Capital property, including such things as a violin, computer or car, comprises all capital property for income tax purposes, but does not include property in class 12 or 14 of the capital cost allowance classes. Class 12 includes low-value assets (such as small tools, dishes, cutlery and motion picture films), for which a 100% write-off is allowed for income tax purposes. Class 14 includes patents, franchise concessions and licences for a limited period. Further, intangible property and cultural property (that meets the criteria of the Cultural Property Export and Import Act) are on the list of exclusions from property that can result in capital gains or losses under the Income Tax Act. Therefore, none of these types of property is subject to the capital property rules. Real property generally includes land and buildings and anything permanently affixed to them.

Essentially, the input tax credit claimed at the time of purchase follows the life of the property. If the use of the property changes beyond a certain percentage, the registrant is required to adjust the input tax credit.

### (a) Capital Personal Property

In order to obtain the initial tax credit, it must be demonstrated that the capital property is being used **primarily** (more than 50%) in a commercial activity. If the business use is 50% or less, no input tax credit is available. This "primarily" test applies to **changes** in commercial use as well. If, over time, an asset crosses the 50% threshold and becomes primarily for use in a commercial activity, the registrant is deemed to have acquired the asset and is entitled to claim the input tax credit. The credit is equal to the lesser of:

(a) the tax calculated on the fair market value of the asset at the time its use changes, and
(b) the tax paid on the acquisition of the asset, including improvements to it, less any rebates claimed.

Where the asset changes from primarily commercial to primarily personal use, GST is payable based on the fair market value of the asset at the time of change.

The following illustrates the change-of-use rules applied to capital personal property. Assume a violin is purchased in 1991 for $2,000 plus $140 GST. The individual claims an input tax credit. In 1997, the individual retires and decides to give the violin to his granddaughter, who will learn to play it. At that time, the fair market value of the violin is $4,000. The grandfather will be deemed to have disposed of the violin for an amount equal to its fair value of $4,000, and GST of $280 will be payable. If he is retiring from all commercial activities at that time, the $280 is payable in his last GST remittance.

If the granddaughter later decides to give music lessons and registers, she will be entitled to an input tax credit which will be the lesser of the GST paid on the deemed purchase ($280) and the GST that would otherwise be payable on the fair market value of the violin at the time she begins giving the music lessons. In addition, since the violin is a musical instrument, the special rules relating to musical instruments would also apply. These are discussed on page 19.

**(b) Capital Real Property**

A credit is allowed on real property (real estate) to the extent that the property is for use in commercial activity, even if it is not primarily for business use; the credit is proportional to the commercial use. When the proportion changes by more than 10%, a change of use has occurred and the registrant is deemed to have either acquired the relevant portion of the property or disposed of it. If, over time, the property's commercial use increases by more than 10%, the registrant is deemed to have acquired it and is eligible for an input tax credit proportional to the increase in commercial use. The credit is determined the same way as for capital property. If, over time, the commercial use decreases by more than 10%, the registrant is deemed to have disposed of that part of the property, and tax is payable to recapture the input tax credit previously claimed.

Special rules apply where the property is also being used by an individual for personal purposes.

# 5

# TRANSITION

## 1. Transitional Rules for Payments

A number of rules were developed for payments on goods and services bridging the implementation period, especially for those businesses dealing with FST.

In general terms, for sales of goods, GST applies to any transaction after January 1991 and on any 1990 transaction paid for after May 1, 1991. For *services* rendered in 1990 and paid for before May 1991, no GST applies; those rendered after January 1, 1991 are taxable. Services spanning the implementation date are taxable on that portion performed in 1991.

For most leases, GST does not apply if these were entered into before August 8, 1989; for automobiles, leases signed before 1991 do not become taxable until 1994.

Royalty and similar payments that are attributable to 1991 and are paid by the purchaser or invoiced by the artist between September 1 and December 31, 1990 are taxable unless received through a prescribed collective. The artist would collect GST on these royalties and the tax would be payable in the first return of 1991.

## 2. Transitional Credit

In order to mitigate the costs of implementing GST, the government has introduced a transitional credit for small businesses registered for GST. Businesses with taxable sales under $500,000 in any three-month period beginning in 1990 or in their first fiscal quarter of 1991 are entitled to claim a one-time credit of up to $1,000. The credit is 2% of sales in any full fiscal quarter beginning in 1990 or before April 1991, to a maximum of $1,000 for registrants with taxable sales of $50,000 in the quarter. Where sales in the quarter do not exceed $15,000, the credit is $300.

The credit may be claimed on any GST return covering a reporting period ending in 1991. Annual filers must file a rebate claim form for the credit within three months of the end of their reporting period. Claim forms are available from Revenue Canada.

## 6
# GLOSSARY

**Business:** a profession, calling, trade, manufacture or undertaking of any kind; generally involves the supply of taxable goods and services for payment; an organization may be in business whether or not the activity is for profit; individuals must have a **reasonable expectation of profit**

**Charity:** as registered under the Income Tax Act

**Commercial Activity:** any **business** or concern in the nature of trade, including some activities of non-profit organizations, but not employment or any activity providing exempt supplies

**Consumer:** the ultimate purchaser and taxpayer; pays 7% GST on most goods and services and is not eligible for any input tax credit or rebate

**Excise:** the division of Revenue Canada dealing with GST and other non-income tax matters

**Goods:** property of any kind, including personal property, a right or interest of any kind, but not including money; also see Property

**Exclusively:** more than 90%

**Exempt Supply:** a good or service which does not attract GST when sold; exempt supplies are listed in Schedule V of the Excise Tax Act; purchases of exempt supplies are not eligible for input tax credits

**Federal Sales Tax (FST):** old federal sales tax regime where tax applied at the manufacturer's level on many manufactured products

**Input:** materials and services used in the creation/production of goods or services; used in providing supplies

**Input Tax Credit (ITC):** credit allowed to GST registrants equal to the GST paid on goods and services used in business

**Non-Profit Organization:** an organization solely for a purpose other than making a profit; does not include charities; qualifying non-profit organizations receive 40% or more of annual revenues as direct government support

**Person:** for tax purposes means an individual, corporation, partnership, charity, union, association, society, or any kind of organization

**Prescribed Collectives:** those collectives, as identified by Revenue Canada, which charge GST to copyright users but whose services to rights holders do not attract GST

**Primarily:** more than 50%

**Property:** real or personal property, tangible or intangible, including a right or interest of any kind, but not including money

**Provincial Sales Tax (PST):** a retail sales tax applied once, at the point of sale, on many goods in all provinces but Alberta; rates and taxable goods vary; Quebec is switching to a multi-stage tax to be administered jointly with GST

**Quick Method:** an alternative approach to calculating GST remittance/refund; available to those with annual GST-included taxable revenues of $200,000 or less

**Reasonable Expectation of Profit:** a concept from the Income Tax Act used to determine whether an activity is a business (rather than a hobby) and eligible to deduct expenses incurred to produce income

**Registrant:** a person who is registered or required to apply to be registered for GST

**Service:** anything other than property, money, employment

**Small Supplier:** business or organization, including self-employed individuals, engaged in commercial activity with gross annual sales under $30,000

**Supplier:** individual, organization or company "selling" goods and/or providing services

**Supply:** any "sale" of property or service, in any manner whatsoever - sale, barter, exchange, transfer, licence, rental, lease, disposition or gift

**Taxable supplies:** all supplies made in the course of commercial activity, except those supplies specified as exempt; may be taxed at 7% or 0%

**Zero-rated:** a taxable supply, eligible for ITC, but taxed at 0%

# 7

# OTHER SOURCES OF INFORMATION

## 1. Publications

**Revenue Canada, Customs and Excise**

- Information for Small Business
- Information for the Arts and Entertainment Industry
- Should I Register?
- also numerous memoranda on many aspects of GST

**Canada Council/Canadian Conference of the Arts**

- Introduction to the GST for Arts Organizations

**Canadian Institute of Chartered Accountants/ Society of Management Accountants of Canada**

- The Complete Guide to the Goods and Services Tax

**Canadian Society of Association Executives**

- The GST Q&A Guide for Trade, Professional, and Other Non-Profit Associations

## 2. Revenue Canada Excise Offices

| Mailing address | General enquiries | |
|---|---|---|
| | Local | Long distance |
| Newfoundland and Labrador<br>P.O. Box 5500<br>St. John's, Newfoundland<br>A1C 5W4 | 772-2851 | 1-800-563-4950 |
| Nova Scotia<br>P.O. Box 1658<br>Halifax, Nova Scotia<br>B3J 2Z8 | 426-1975 | 1-800-565-9111 |
| Prince Edward Island<br>P.O. Box 1658<br>Halifax, Nova Scotia<br>B3J 2Z8 | 566-7272 | 1-800-565-9111 |
| New Brunswick<br>P.O. Box 1070<br>Moncton, New Brunswick<br>E1C 8P2 | 851-3727 | 1-800-561-6656 |
| Quebec<br>P.O. Box 2117,<br>Postal Terminal<br>Quebec, Quebec<br>G1K 7M9 | 648-4376 | 1-800-363-5254 |

| | | |
|---|---|---|
| **Quebec**<br>P.O. Box 6092<br>Station"A"<br>Montreal, Quebec<br>H3C 3H3 | 496-1494 | 1-800-361-8339 |
| **Ontario**<br>P.O. Box 8257<br>Ottawa, Ontario<br>K1G 3H7 | 990-8584 | 1-800-465-6160 |
| P.O. Box 100<br>Station "Q"<br>Toronto, Ontario<br>M4T 2L7 | 973-1000 | 1-800-461-1082 |
| P.O. Box 5457<br>London, Ontario<br>N6A 4L6 | 645-4041 | 1-800-265-0017 |
| **Manitoba**<br>P.O. Box 1022<br>Winnipeg, Manitoba<br>R3C 2W2 | 983-4525 | 1-800-665-8749 |
| **Saskatchewan**<br>P.O. Box 557<br>Regina, Saskatchewan<br>S4P 3A4 | 780-7279 | 1-800-667-8886 |
| **Alberta/Northwest Territories**<br>P.O. Box 1717<br>Station "M"<br>Calgary, Alberta<br>T2P 4K4 | 292-6990 | 1-800-661-3498 |
| P.O. Box 2296<br>Main Postal Station<br>Edmonton, Alberta<br>T5J 4N3 | 448-1309 | 1-800-661-3498 |
| **British Columbia/ Yukon**<br>P.O. Box 82110,<br>North Burnaby Postal Station<br>Burnaby, British Columbia<br>V5C 5P2 | 666-4664 | 1-800-561-6990 |